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MEMORANDUM
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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

Date: October 5, 2007

RE: RED ROCK UTILITIES L.L.C. - VERANO APPLICATION FOR NEW
CERTIFICATE OF CONVENIENCE AND NECESSITY.
DOCKET NO. WS-04245A-07-0363

2007 OCT -5 P 3: 30
4A for EGT
AZ CORP COMMISSION
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Arizona Corporation Commission

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Advances in Aid of Construction

Administrative Code

The Arizona Administrative Code prescribes the method for which advances in aid of construction ("AIAC") paybacks or refunds are normally made. The refunds are typically ten percent of the revenue generated by the main extension associated with the advance. Section R14-406-D of the administrative code states refunds made pursuant to this rule shall be made in accordance with the following method:

the Company shall each year pay to the party making an advance under a main extension agreement, or that party's assignees or other successors in interest where the Company has received notice and evidence of such assignment or succession, a minimum amount equal to ten percent of the total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement, for a period not less than 10 years....The aggregate refunds under this rule shall in no event exceed the total of the refundable advances-in-aid-of-construction. (emphasis added).

Calculation of Refunds for New CC&N

For a new CC&N, the "total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement" does not exist. Consequently, the Company calculated AIAC refunds by multiplying 10 percent by each year's gross line extension revenue amount. Staff reviewed this methodology and concurred.

The payback of ten percent is not based on total revenue collected by the Company but by the revenue generated from that main extension as discussed in the administrative code. For the purposes of calculating the refunds, total Company revenues are not used. Rather, it is the revenues generated from a particular line extension. AIAC is a liability to the Company to be paid off at a minimum of ten percent per year. The ideal repayment situation would allow the Company to pay back ten percent of the advances each year as shown on Schedule CRM-W-4

Staff has determined that schedule CRM-W-4, "Advances Less Refunds" was calculated in accordance with the administrative code and is correct as previously filed. Staff has added some clarification. Both the Company and Staff have used the amounts as if the Company made the minimum ten percent payback each year. To help clarify the schedule, Staff has changed the annual refund column heading to read "Ten percent Minimum Payback". The cumulative refund column heading has changed to read "Annual Payback". Staff created a new cumulative refund column to record the cumulative balance of the payback of advances from year to year so that the calculation of net advances balance column would be easier to understand.

A revised schedule CRM-W-4 has been prepared to reflect these changes.

EGJ:CRM:tdp

Originator: Charles R. Myhlhousen

REVISED - SCHEDULE CRM-W-4

Red Rock Utilities L.L.C. - Verano
Docket Number WS-04245A-07-0363
New CC&N

ADVANCES LESS REFUNDS

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
Year	Gross Advances	Cumulative Advances	Refund Percentage	10% Minimum Payback	Annual Payback	Cumulative Refund	Net Advances Balance
1	\$328,722	\$328,722	0.10	\$0.00	\$0.00	\$0.00	\$328,722
2	448,125	776,847	0.10	32,872	32,872	32,872	743,975
3	427,500	1,204,347	0.10	44,813	77,685	110,557	1,093,790
4	380,523	1,584,870	0.10	42,750	120,435	230,992	1,353,878
5	323,438	1,908,307	0.10	38,052	158,487	389,479	1,518,829

changed headings and columns are in bold